

provisions are conservative and safeguard against the issuance of prior liens. Total consolidated assets of the company amount to \$229,358,592, while funded debt, in addition to the debentures, amounts to \$84,336,000. Fixed charges on a consolidated basis have shown an over-all coverage averaging 1.54 times over the past five years. Coverage for the twelve months to November 30, last, was 1.53 times. The parent company has filed a plan of integration with the S E C, designed to comply with the Public Utility Act of 1935, and on which hearings are being held. While the outcome of these hearings remains in doubt, there appears no reason to believe that the status of Continental Gas & Electric debentures will in any way be affected adversely.

Opportunities in Reorganized Rails

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ganization plan, securities as proposed under the plan are immediately quoted, representing bonds and stocks that will be distributed to holders of the original defaulted bonds.

Securities to be received in exchange for the defaulted bond vary and usually include a percentage of first mortgage fixed interest bonds, a proportion of income bonds, interest on which is payable only if earned and a certain amount of preferred stock and common stock. Naturally, the higher the proportion of fixed interest bonds, the more favorable the exchange. The original defaulted bond thus has a mixture of investment and speculative qualities. However, it cannot be purchased indiscriminately, since some plans are more attractive than others and the difficulties standing in the way of successful reorganization in some cases are far greater than others. In the final paragraph of this article, we indicate the issues in this category that we like best.

Perhaps the safest way to benefit from railroad reorganizations is to wait for approval of a reorganization plan and then buy the first mortgage bond (which usually is strongly protected as to earnings and ranks as investment quality) over the count-

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er. At such times the stigma of the necessitated recapitalization still is such that the bonds may be underpriced, but after the reorganization atmosphere fades and the bonds are brought into the limelight of the listed market, general public buying may be expected ultimately to pull them around closer to their value. Advances of this type have ranged up to 30% or more this year.

Included in this article is a tabulation of "when-issued" prices of the securities of several railroads which have had their plans approved by the courts. The tabulation includes preferred and common stocks, as well as first mortgage and income bonds. On grounds of the drastic scaling down accomplished by some of the roads, their income bonds are likewise attractive, certainly more so than some of the junior bonds of the marginal, still-solvent roads. Aside from the important fundamental of good earnings protection for these issues in times like the present, there is the added appealing factor of these issues being immune (as, of course, the first mortgage bonds are, too) from rising corporation taxes.

This is so because both normal and excess profits taxes are applied after providing for fixed charges and *after the provisional interest on the income bonds*. Buying these bonds thus is one of the best ways of obtaining profits from the armament boom without these profits being sharply pared down by the coming armament-era taxes, which will have to be huge to help finance the enormous defense program. As an incidentally noteworthy fact, income bond interest is permitted from the effective date of the plan, accruals covering a number of months in some instances.

Among the various securities discussed, we conclude from analysis of recapitalization plans and the application of these plans to earnings of several years back, as well as their application to future potential earnings that relatively the most attractive issues are in the Chicago, Milwaukee, St. Paul & Pacific; the Erie; the Chicago, Rock Island & Pacific and the Western Pacific situations. Virtually the entire field has attraction, however, with possible gains. With the carrying out of our armament plans, these gains are likely to be fairly general.

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